



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

JAN 28 2008

THE CONTROLLER

MEMORANDUM FOR CHIEF FINANCIAL OFFICERS

FROM: Danny Werfel, Acting Controller
Office of Federal Financial Management

SUBJECT: Update on the Financial Management Line of Business

Improving the cost, quality, and performance of financial management operations remains one of the President's top management priorities. The Financial Management Line of Business (FMLOB) will achieve the President's goals by leveraging common standards and shared solutions as well as implementing other government-wide reforms to foster efficiencies in Federal financial operations. The purpose of this memorandum is to summarize (i) the FMLOB policies and updates to those policies; (ii) the status of the initiative; and (iii) the priorities over the next two years.

FMLOB Policies

The May 22, 2006 memorandum entitled, "*Competition Framework for Financial Management Lines of Business Migrations*," outlined the primary FMLOB policy (Attachment 1). Specifically, with limited exception, an agency seeking to upgrade to the next major release of its current core financial management system or modernize to a different core financial management system must either migrate to a Shared Service Provider (SSP) or qualified private sector provider, or be designated as a SSP. The policy requires that, at a minimum, agencies consider pursuing hosting and application management shared services. The intent of this policy is to avoid costly and redundant investments in "in-house" solutions for common support services. However, one of the single greatest risks for moving to shared services is that the financial business processes are not standardized across the government.

To that end, the Financial Systems Integration Office (FSIO) has been working with all agencies to develop the business standards (i.e., common government-wide accounting code, business processes, data, and business rules). Once these business standards are complete, each agency will migrate to a SSP to establish and maintain a financial management system that complies with the existing requirements in OMB Circular A-127, Financial Management Systems, OMB Circular A-11, Preparation, Submission, and Execution of the Budget, as well as follow the newly defined business standards.

To enable this transition, the business standards will be incorporated into the existing FSIO core financial systems requirements and be tested during the FSIO software qualification and certification process. Once the software products are certified as meeting FSIO core financial systems requirements (including the business standards), Federal agencies will only be permitted

to acquire, and shared service providers allowed to implement, the certified products as configured with the standards. This policy is different from today's practices that allow agencies and shared service providers to deviate from the certified software configuration and thereby create different (non-standard) processes across the Federal government.

An agency will be required to adopt these standards when it moves to a SSP. We are confident that this updated policy will better facilitate the FMLOB vision and goals.

FMLOB Initiative Status

Two years ago, an FMLOB framework was introduced which separated the initiative into three stages – (i) transparency and standardization; (ii) competitive environment and seamless data integration; and (iii) results (Attachment 2). FSIO, in collaboration with financial management stakeholders from within and outside the Federal Government, has made considerable progress in completing these projects. Some of these projects have taken longer to complete than was originally estimated. However, we believe that the additional time has allowed us to (i) prepare more comprehensive materials and (ii) obtain buy-in and support for the initiative. Significant FMLOB accomplishments are as follows:

- Issued the competition framework for FMLOB migrations (May 2006).
- Released the FMLOB Migration Planning Guidance to help agencies prepare for, and manage, a migration of their financial management system operations to a shared service provider (September 2006).
- Released an exposure draft of the standard funds control processes (February 2007).
- Released the Financial Services Assessment Guide including seven metrics from two mandatory service categories: IT Infrastructure Hosting and Administration and Application Management. Began internal data collection and performance analysis of the four Federal SSPs and CFO Act agencies (March 2007).
- Released an exposure draft of the standard payment management processes (May 2007).
- Released the common government-wide accounting classification structure (July 2007).
- Released an updated version of the FMLOB due diligence checklist for use by OMB, FSIO, and customer agencies to assess the abilities of potential and current SSPs (August 2007).
- Released charge card data elements specification standardizing government-wide requirements for data elements not initially included in the General Services Administration SmartPay® 2 master contract.

FMLOB Priorities

The FMLOB initiative will continue with projects under the transparency and standardization stage of the framework. Specifically, these projects will support the goals of (i) incorporating the FMLOB business standards (i.e., common government-wide accounting code, business processes, data, and business rules) into the existing FSIO core financial systems requirements and (ii) enhancing tools to assist agencies in evaluating and migrating to shared service solutions.

Projected Accomplishments by December 2008

Developing the FMLOB Business Standards

- Finalize the business standards for the funds control, payment management, receivable management, reimbursables, and reporting processes in keeping with the laws and regulations governing the administrative control of funds such as the Anti-deficiency Act.
- Update the Core Financial Systems requirements to incorporate the business standards.

Enhancing Tools to Evaluate and Migrate to Shared Solutions

- Develop cost and performance measurements for the funds control, payment management, receivable management, reimbursables, and reporting processes.
- Expand the migration planning guidance to better assist agencies in navigating the acquisition process for shared financial services.
- Revise OMB Circular A-127, Financial Systems, based on the policy update.

Projected Accomplishments by December 2009

Developing the FMLOB Business Standards

- Develop the updated testing methodology as well as the testing scenarios.
- Have financial system providers incorporate the business standards into their software in preparation for testing.
- Identify and begin development of additional standards (e.g., interface data elements) that will also assist in lowering the risk and cost of implementing financial systems and begin developing those standards.

Enhancing Tools to Evaluate and Migrate to Shared Solutions

- Baseline agency financial operations using the cost and performance measurements.
- Monitor performance.

I am confident that the updates highlighted above will serve to strengthen the financial activities of the Federal Government. To the extent we require any specific action on your part to carry out the priority initiatives outlined above, we will communicate such requests through subsequent memos from OMB or FSIO. I look forward to working together to make progress in these vital areas.

Attachments



EXECUTIVE OFFICE OF THE PRESIDENT
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WASHINGTON, D.C. 20503

May 22, 2006

MEMORANDUM FOR CHIEF FINANCIAL OFFICERS
CHIEF INFORMATION OFFICERS
CHIEF ACQUISITION OFFICERS

FROM:

Linda Combs
Controller
Office of Federal Financial Management

Karen S. Evans
Administrator
Office of E-Government and
Information Technology

Robert A. Burton
Associate Administrator
Office of Federal Procurement Policy

SUBJECT:

Competition Framework for Financial Management Lines of Business
Migrations

The purpose of this memorandum is to provide guidance to agencies that are planning to migrate their agency's financial management systems and services involving commercial activities. This guidance establishes an initial framework for the competitive migration of these needs to either a public Shared Services Center (SSC) or a qualified private sector provider under the Financial Management Lines of Business (FMLoB) initiative. FMLoB migrations are intended to improve the cost, quality, and performance of financial management systems. The routine use of competition as part of the migration process will help agencies to maximize value by considering alternative solutions in a reasoned and structured manner to select the best available public or private provider of financial management.

OMB's policy is that, with limited exception, an agency seeking to upgrade to the next major release of its current core financial management system or modernize to a different core financial management system must either migrate to an SSC or qualified private sector provider, or be designated as an SSC. At a minimum, agencies must consider pursuing hosting and application management shared services. However, agencies may also consider other shared services, such as accounting or transaction processing.

It is OMB's intent to avoid costly and redundant investments in "in-house" solutions for common support services so that shared service operations may achieve their full potential and

their full potential and anticipated returns. An agency may rely on its in-house core financial management system operations without being designated as an SSC only if the agency demonstrates that its internal operations represent a best value and lower risk alternative over the life of the investment. This demonstration shall be made through the establishment of a most efficient organization and public-private competition, unless there is a justified basis for foregoing competition or for using a limited form of competition, such as public-public competition. The justification shall be documented in the same general manner prescribed in Part 6 of the Federal Acquisition Regulation for the use of other than full and open competition.

Accordingly, agencies undertaking steps to acquire new financial management systems shall comply with this policy and the guiding principles in the attached competition framework. They are designed to ensure agencies preparing to modernize financial systems: (1) consider both public and private sector providers with a demonstrated capability, (2) conduct competition between these providers in an impartial and transparent manner, and (3) hold the selected provider accountable for results through an appropriate implementation structure.

OMB intends to supplement this initial framework as efforts progress in the coming months to increase transparency and standardize business processes, interfaces, and data for FMLoB activities. As explained in the December 16, 2005 memorandum to the Chief Financial Officers Council, *Update on the Financial Management Line of Business and the Financial Systems Integration Office*, increased transparency and standardization are necessary to sustain a fully competitive environment that is conducive to participation by both SSCs and private sector providers. A copy of the memorandum is available at http://www.whitehouse.gov/omb/financial/ffs_branch.html.

There are several projects underway to increase transparency and standardization. These projects include the creation of standard quality and cost measures to benchmark and compare the performance of financial system alternatives, development of migration planning guidance (which includes templates for service level agreements outlining provider and client responsibilities), and the establishment of governmentwide common business rules and data components. In addition, efforts are ongoing to put in place policies for funds control, accounts payable, accounts receivable, and financial reporting. Each of these efforts will enhance competition by facilitating more informed decision-making and better portability of agency systems from one solution to another.

The initiatives identified above are intended to facilitate, not delay, agency migration efforts. Nothing in this memorandum changes the expectation that agencies will continue to take all the necessary steps, in the earliest possible timeframes, to meet FMLoB objectives. OMB will work with agencies as revisions are made to the competition framework to determine how such revisions should be handled with respect to an ongoing migration.

This competition framework, and supplements to the framework, will be incorporated into OMB's FMLoB Migration Planning Guidance. The FMLoB Migration Planning Guidance will be issued later this spring to help agencies describe, prepare for, and manage migrations. Please refer to the December 16, 2005 memorandum for

additional information. Your suggestions will be considered in developing supplements to the initial framework and may be sent to FMLOB@omb.eop.gov.

The competitive migration of financial management systems offers an opportunity both to improve the efficiency and effectiveness of shared services and to strengthen the stewardship of taxpayer dollars. We appreciate your careful attention to this memorandum and look forward to working with you to achieve success on this important results-based initiative.

Attachment

Financial Management Lines of Business Migration Guidelines An Initial Framework

The Office of Management and Budget (OMB) has developed this guidance for agencies that are planning to migrate their agency's financial management systems and services involving commercial activities. This guidance establishes an initial framework for the competitive migration of these needs to either a Shared Services Center (SSC) or qualified private sector provider under the Financial Management Line of Business (FMLoB) initiative. Agencies undertaking steps to acquire new financial management systems shall comply with the guiding principles outlined below.

OMB plans to supplement this framework through related FMLoB projects undertaken to increase transparency and standardization of financial management business processes. Agencies shall consult with OMB prior to initiating full-scale planning for an FMLoB migration.

Guiding Principles

1. Consideration of providers with a demonstrated capability.

- a. Migration shall result in the selection of a public or private sector service provider with a demonstrated ability to leverage technology, expertise and other resources to achieve best value for the taxpayer. The provider selected by the customer agency, whether from the public sector or the private sector, must be able to:
 - i. utilize a core financial management system meeting requirements issued by the Financial Systems Integration Office (<http://www.jfmip.gov/fsio/>) - formerly the Joint Financial Management Improvement Program;
 - ii. meet the requirements of the Financial Management Due Diligence Checklist (see http://www.whitehouse.gov/omb/egov/documents/FM_LoB_Due_Diligence_Checklist_V1.pdf); and
 - iii. comply with any additional applicable requirements, such as: privacy, security, compliance with section 508 of the Rehabilitation Act, continuity of operations, critical infrastructure protection, disaster recovery, service level agreements, and help desk services.
- b. Except as provided in subsection 1 c., below, the customer agency's consideration of federal service providers shall be limited to those that have been designated by OMB as an SSC candidate. As of January 1, 2006, the following organizations have been designated as SSCs for financial management:

- i. National Business Center, Department of the Interior (<http://www.nbc.gov/>);
- ii. Administrative Resource Center, Bureau of Public Debt, Department of the Treasury (<http://arc.publicdebt.treas.gov/>);
- iii. External Services Division, General Services Administration (<http://fmcoe.gsa.gov/>); and
- iv. Enterprise Service Center, Department of Transportation (<http://www.esc.gov/>).

Agencies should consult with the FMLoB Program Management Office or OMB regarding any new designations or changes in current designations.

- c. An agency may rely on its in-house operations without being designated as an SSC only if the agency demonstrates that its internal operations represent a best value and lower risk alternative over the life of the investment. This demonstration shall be made using a competitive process, or an exception thereto, as outlined in section 2, below.

2. Use of a competitive process.

- a. General policy. OMB strongly favors competitive migrations through public-private competition. Public-private competition facilitates informed decision-making by customer agencies through the comparison of various solutions offered by SSCs and private sector providers.

Agencies that wish to conduct a non-competitive migration or a migration based on private-private competition (if authorized) or public-public competition shall prepare a full justification, generally including the type of information called for by section 6.303-2 of the Federal Acquisition Regulation (FAR). The justification shall be approved by the agency's Chief Financial Officer, Chief Information Officer, and Chief Acquisition Officer. Agencies shall confer with OMB prior to proceeding with a migration through other than a public-private competition.

- b. Migration through public-private competition.
 - i. Migrations involving activities performed by more than 10 FTEs. Except as provided in deviations granted by OMB, the customer agency shall follow OMB Circular A-76 for a migration that is conducted through a public-private competition and involves the potential transition of activities currently performed by more than 10 full-time equivalent employees (FTEs) in the customer agency. The Circular provides for the issuance of a single solicitation to both public and private sector providers, use of performance-based statements of work, the identification of the full cost of performance to the government by federal service providers, and the impartial evaluation of offers. The Circular also incorporates many of the policies and procedures of the FAR.

Agencies are encouraged to consult with OMB to discuss the most effective and efficient means for conducting a public-private competition, including the need for deviations. OMB will consider agency requests for deviations on a case-by-case basis in accordance with section 5.c of the Circular.

ii. Migrations involving the transition of activities performed by 10 or fewer FTEs.

The customer agency shall use a competitive process that includes the elements outlined below for migrations that involve the potential transition of activities performed by 10 or fewer FTEs within the customer agency. An agency may, but is not required to, follow Circular A-76 - i.e., this memorandum constitutes a deviation from Circular A-76 for migrations involving the transition of activities performed by 10 or fewer FTEs.

- A. *Notice of intent to conduct a competitive migration.* Agencies shall publish a notice in *FedBizOpps* of their intent to conduct a public-private competition for financial management shared services.
- B. *Single solicitation to both sectors.* Agencies shall issue a solicitation inviting *both* private sector providers and SSCs to submit offers. See section 2.d., below, regarding consideration of the incumbent non-SSC in-house provider.

The solicitation shall:

- I. include a statement advising potential offerors that this competition is a public-private competition;
 - II. identify the requirements for preparing offers, including any special instructions (see subsection F., below, for special instructions applicable to offers from federal service providers); and
 - III. describe the agency's basis for evaluating offers.
- C. *Performance-based statement of work.* Agencies shall develop a performance-based statement of work giving potential providers sufficient latitude to offer the best and most innovative solutions to meet the agency's needs.
 - D. *Price/cost reasonableness.* Agencies shall ensure services are obtained at a fair and reasonable price/cost. Agencies shall require federal service providers to identify the full cost of performance to the government. Proposals from federal service providers must include sufficient detail to allow customers to understand the basis for proposed costs and evaluate price reasonableness.

- E. *Impartial evaluation of offers.* Agencies shall evaluate federal service provider and private sector offers in accordance with the same set of criteria, a single evaluation panel, and a single selection authority. The source selection process should be transparent and ensure federal service providers and private sector offers are considered on a level playing field.
- F. *Use of FAR policies and procedures.* Agencies shall generally use the policies and procedures of the FAR to guide their competitive migrations. For example:
- Use the procedures in FAR Part 15 if conducting a negotiated acquisition, including:
 - o application of the policies in FAR 15.101-1 if performing "cost-technical" tradeoffs;
 - o performance of price analysis and cost realism analysis in accordance with FAR Subpart 15.4; and
 - o evaluation of past performance information as described in FAR 15.305(a)(2).
 - Publicly announce awards in FedBizOpps per FAR Subpart 5.3.
 - Offer debriefings to federal service providers and private sector offerors in accordance with FAR 15.506.
 - Allow protests to the agency using the framework provided in FAR Subpart 33.103.

Certain FAR requirements are not applicable to federal service providers. For example, a federal service provider offer is not required to include: (a) a labor strike plan, (b) licensing or other certifications, (c) a subcontracting plan, and (d) participation of small disadvantage businesses. Solicitations shall contain a special instruction to identify the FAR provisions that are not applicable to federal service providers.

Note: The solicitation shall make clear that if a federal service provider is proposing to subcontract work to the private sector, the federal service provider must provide maximum practicable opportunities for small businesses to participate in such subcontracting. In addition, requirements related to a labor strike plan, licensing and other certifications may apply to work that is subcontracted.

- c. Migrations through public-public competitions. In the limited circumstances where a public-public competition is justified in accordance with section 2.a., agencies shall describe to OMB the processes that will be used to evaluate potential providers. As a general matter, these processes should require (i) issuance of a performance-based statement of work, (ii) submission of offers that identify the full cost of performance to the government, and (iii) impartial

evaluation of offers. Processes should also take maximum practicable advantage of the policies and procedures in the FAR.

d. Consideration of an incumbent in-house provider that is not an SSC.

Migrations conducted through public-private competitions. If a migration is conducted through a public-private competition and involves the potential transition of activities currently performed by more than 10 FTEs in the customer agency, the customer agency shall consider an offer developed by the incumbent in-house provider as part of the competitive process. The offer (referred to in Circular A-76 as a tender) shall include a most efficient organization (MEO) plan.

Circular A-76 processes provide for agencies to evaluate the agency tender simultaneously with offers from SSCs and private sector providers. OMB will consider deviations by agencies that wish to consider alternative models. As one example, an agency may wish to consider a two-step competition. In the first step, the customer might identify the best federal service provider after comparing the incumbent non-SSC in-house provider to SSCs using the Circular's costing principles and a highly streamlined evaluation process. The best federal service provider would then compete with private sector providers in the second step following the general procedures of the Circular.

If a public-private competition involves the potential migration of 10 or fewer FTEs, the agency may, but need not, consider the incumbent non-SSC in-house provider.

ii. Migrations conducted through public-public competitions. Irrespective of the size of the competition, agencies may, but need not, consider an incumbent non-SSC in-house provider if the migration is based on a public-public competition.

e. Compliance with section 842(a) of Public Law 109-115. Section 842(a) of P.L. 109-115 prohibits, with limited exceptions, an executive agency from converting work performed by more than 10 FTEs to private sector performance absent a showing, through competition, that performance by a contractor would be less costly to the agency by an amount that equals or exceeds the lesser of \$10 million or 10 percent of the personnel-related costs associated with performance by the agency's MEO. An agency is precluded under section 842(a) from converting work to private sector performance if this differential is not met, even if the agency can demonstrate that private sector performance would provide a superior solution, where both cost and quality considerations are taken into account. For additional guidance on the application of section 842, see OMB Memorandum M-06-13, *Competitive Sourcing under Section 842(a) of Public Law 109-115*.

3. Implementation of an accountability structure.

Irrespective of the source selected, the provider must be held accountable for achieving results and the customer agency must take appropriate steps to ensure good stewardship of taxpayer dollars. Accordingly:

- a. If the customer agency selects a private sector contractor, the customer must administer the contract in accordance with the FAR. In particular, the customer must: (i) have a quality assurance surveillance plan (QASP) and a team in place to implement the plan and (ii) evaluate the contractor's performance on an ongoing basis for consideration in future competitions for federal work.
- b. If the customer agency selects a federal service provider, the customer and service provider will enter into an inter-agency agreement clearly identifying the workload, performance levels, the method of quality surveillance, and the cost for performance. A team must be in place to implement the QASP and the agency must also be prepared to evaluate the provider's performance on an ongoing basis for consideration in future competitions.
- c. Contracts and agreements will include performance metrics so that performance of core functions and other value added services can be periodically evaluated and adjustments made where necessary, including consideration of a new public or private sector provider over the longer term if service is not satisfactory.
- d. Agencies shall incorporate appropriate performance periods into their agreements with federal service providers and contracts with the private sector, considering the nature and risk associated with the service to be provided.
- e. Performance standards will include specific exit criteria whereby the customer agency may leave the agreement when there is a failure to perform.
- f. Agencies shall ensure inter-agreements with SSCs satisfy the requirements of the Economy Act, 31 U.S.C 1535, or other authorities, as applicable.

4. Tracking results.

Customer agencies shall monitor performance, regardless of the selected service provider, for all performance periods stated in the solicitation. Performance measurement and reporting shall be consistent with OMB guidance on earned value management. See OMB Memorandum M-05-23, *Improving Information Technology (IT) Project Planning and Execution*.

FMLOB Vision/Framework

